

Japan Equity Strategy

Japan's corporate reforms seems real:
evaluating structural transformation

Investment Strategy

Structural shift toward inflation, less dependence on forex

We examine five structural changes underway in Japan: (1) a structural shift toward an inflationary economy; (2) less dependence on forex; (3) accelerating corporate reforms; (4) a rise in Japan's soft power; and (5) the Upper House election (as a risk factor).

To begin, the structural shift to an inflationary economy is rooted in demographics, with the mass retirement of baby boomers serving as the trigger. If cost-push inflation subsides and labor shortages lead to stickier wage growth, Japan could see healthier, more sustained inflation over the medium term. Moderate yen appreciation improves terms of trade for Japan, and with earnings less sensitive to forex, the stronger yen is not as negative for Japanese equities. Companies accelerating the transfer of production to overseas locations has reduced the sensitivity of EPS to forex while amplifying its impact on their own capital. The end of an overly weak yen is also helping improve ROE.

Corporate reforms, soft power and Upper House election

The transition to an inflationary economy has helped catalyze corporate reforms. In response to inflation, companies are more effectively using their cash and raising prices to fund wage hikes. Labor shortages have also prompted industry consolidation and a focus on core competencies. From a macro perspective, Japan now has an opportunity to play a central role in global free trade and international coordination. This reinforces the importance of Japan's growing soft power. For the near term, however, a key risk is the Upper House election being held in July.

Corporate reforms: Three unwindings

In this report, we examine three key trends in corporate reforms: (1) the unwinding of parent-subsidiary listings, (2) reductions of strategic shareholdings and (3) the disposal of idle real estate.

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Investment Strategy
Japan

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Assessing Japan's structural changes

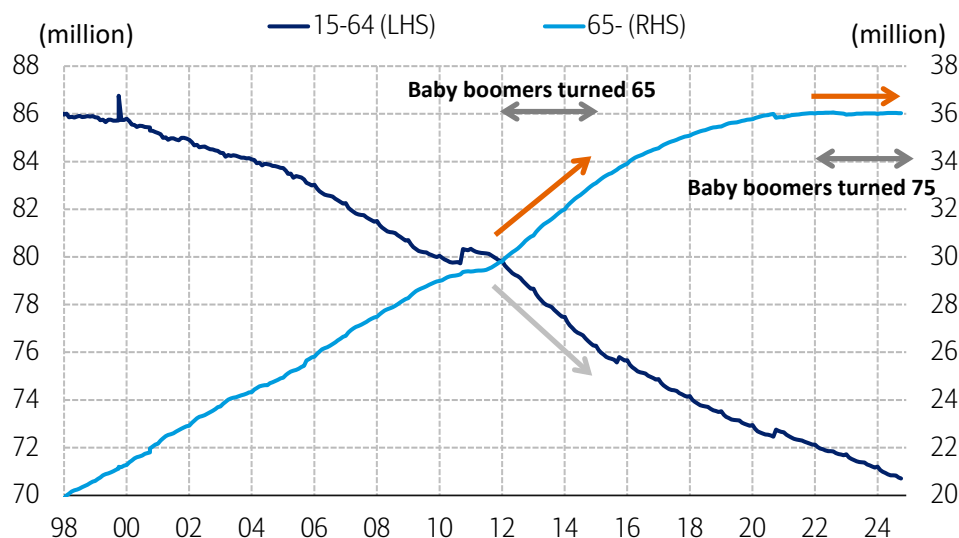
Compared to European equities, which have seen a historic shift in fiscal policy, and Chinese equities, which are catching up in AI, Japanese equities have underperformed since 2H 2024. On the other hand, Japan's structural transformation continues to progress steadily. We are increasingly convinced that the current wave of corporate reforms is genuine. This provides a strong rationale for reassessing Japanese equities from a medium-term perspective, in our opinion. In this report, we highlight five key changes occurring in Japan: (1) the transition to an inflationary economy, (2) less dependence on forex, (3) accelerating corporate reforms, (4) a rise in Japan's soft power, and (5) the July Upper House election (as a risk factor).

Structural shift toward an inflationary economy

First, we discuss the background to Japan's transition to an inflationary economy. We believe that structural labor shortages have been an underlying driver of inflation. Labor shortages began with the mass retirement of baby boomers during 2012-14 (Exhibit 1).

Exhibit 1: Population aged 15-64 (working-age population) and 65 and over

Baby boomers turned 65 in 2012-14 and 75 in 2022-24



Source: BofA Global Research, Bloomberg, MIC

Note: Japan's baby boomers were born between 1947-1949

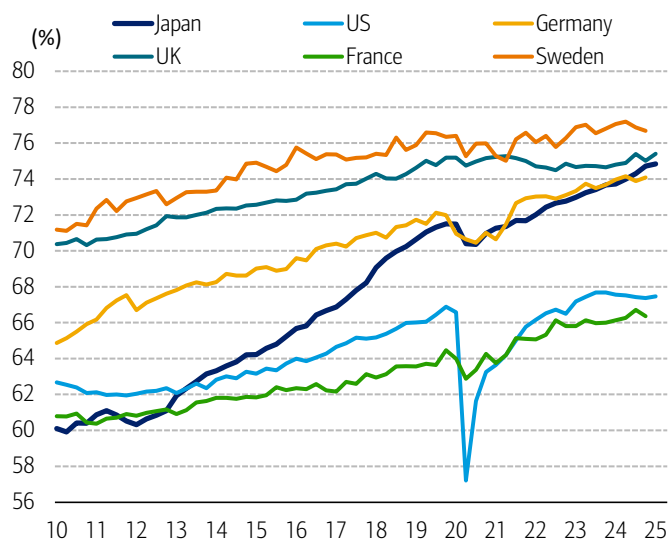
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In recent years, three other factors have exacerbated the labor shortages. First, many baby boomers who had remained employed reached age 75 during 2022-24, and accelerated their exit from the labor market. Second, female participation in the workforce, which helped fill the gap after baby boomers retired, has already increased significantly. Japan's female workforce participation rate has caught up with levels in Germany and the UK, and Japan's once-distinct M-shaped curve (a drop in the workforce participation rate during women's childbearing and childrearing years in their 30s) has nearly disappeared (Exhibit 2, Exhibit 3). Third, the work style reforms that began in 2017 have made it harder for companies to adjust overtime hours during peak work periods. We see no end to Japan's labor shortages.



Exhibit 2: Female labor force participation rates in major countries

Japan's female labor force participation rate has risen to levels comparable to Germany and the UK's

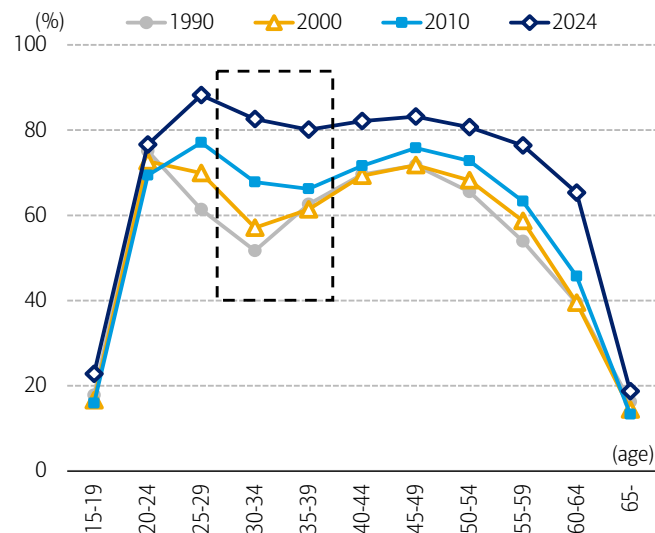


Source: BofA Global Research, Refinitiv
Note: Ages 15-64

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Exhibit 3: Female labor force participation by age cohort

The "M-curve" has nearly disappeared



Source: BofA Global Research, MIC, MHLW

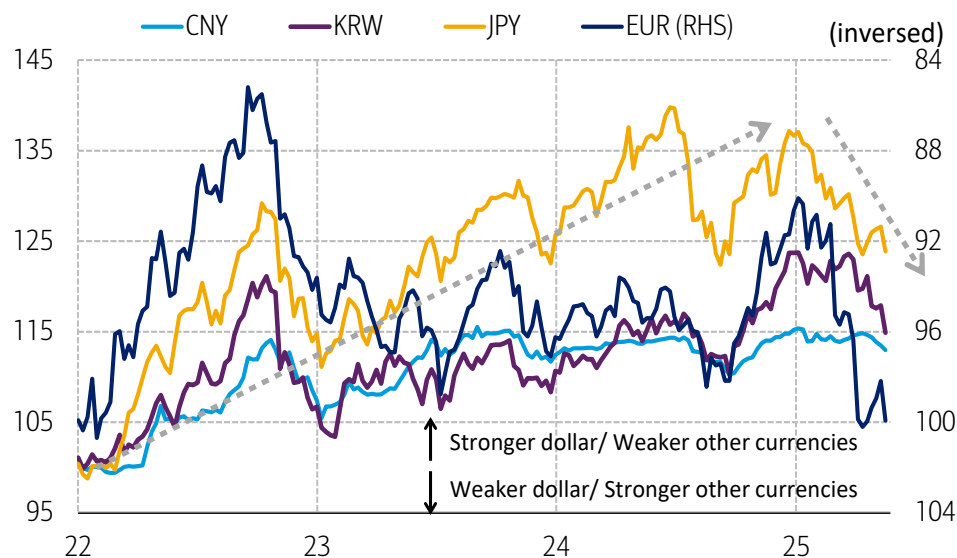
Note: Labor force population as a fraction of population aged 15 and over

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The easing of high natural resource prices and excessive yen weakness is also significant, as it is helping to moderate cost-push inflation. This has the potential to improve terms of trade and entrench healthy inflation. Looking back, after the start of the Ukraine war in 2022 and the surge in resource prices, the currencies of non-resource countries, including Japan, came under selling pressures, while resource-rich countries bought the dollar (Exhibit 4). As a result, higher resource prices and weaker currencies sharply worsened the terms of trade in those countries, forcing central banks to tighten monetary policy while weighing on USD-based equity indices. Lately, that dynamic has since reversed.

Exhibit 4: EUR, JPY, CNY, and KRW vs. USD

Since 2022, currencies of non-resource nations such as Europe, China, Asian industrialized nations, and Japan have depreciated vs USD



Source: BofA Global Research, Bloomberg

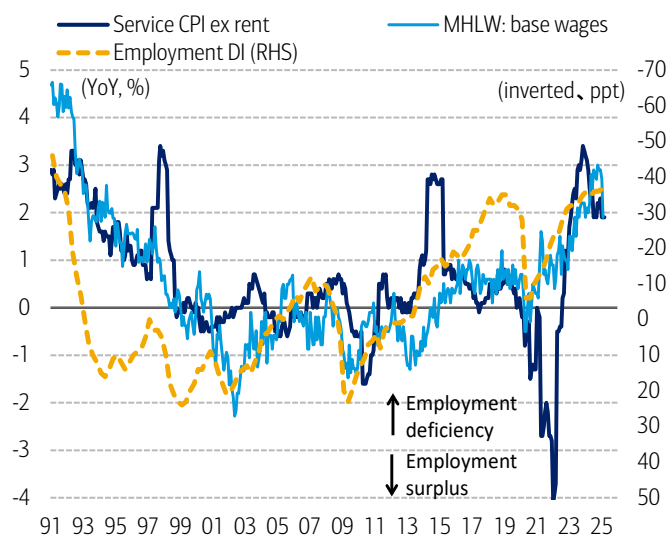
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Meanwhile, the increase in import prices helped awaken wage inflation in Japan. In Japan, there is an extended time lag between wages and inflation. This is because spring wage negotiations (shunto) typically take about six months to be reflected in monthly wages, and are influenced by the prior year's rate of inflation. Currently, wage and service price increases are finally taking hold, at a lag behind the spike in import prices (Exhibit 5).

If import-driven inflation slows down (Exhibit 6) while wage inflation remains sticky due to structural labor shortages, a path could open up to real wage growth over the medium term. That said, the recent increase in food prices and decline in wages due to uncertainty are risks. We view inflation as becoming healthy and sustainable (our economists forecast core CPI at +1.9% YoY in FY25 and +2.1% in FY26).

Exhibit 5: Services CPI (excluding rent), scheduled wages, employment conditions DI

Wage and service CPI increases becoming entrenched



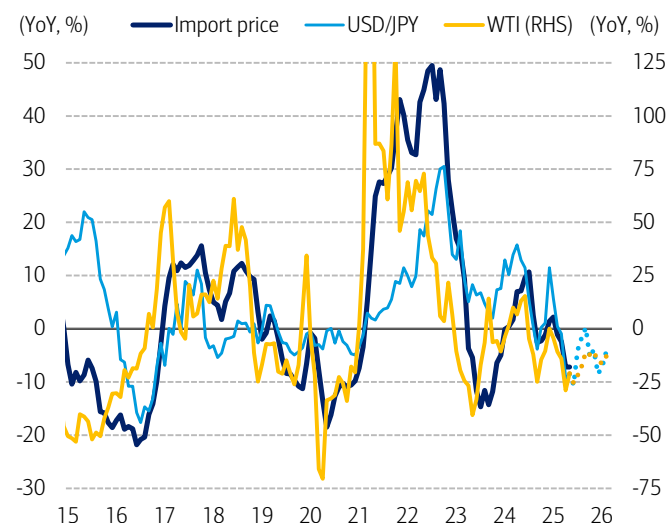
Source: BofA Global Research, INDB

Note: Scheduled wages from 2016 are for continuously surveyed establishments. Employment conditions DI is for companies of all sizes and all industries

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Exhibit 6: Import price index, USD/JPY rate, WTI crude oil

Import inflation is expected to stabilize



Source: BofA Global Research, Bloomberg

Note: The dashed lines for the USD/JPY rate and WTI crude oil price are projections assuming their YoY change continues following the previous pattern

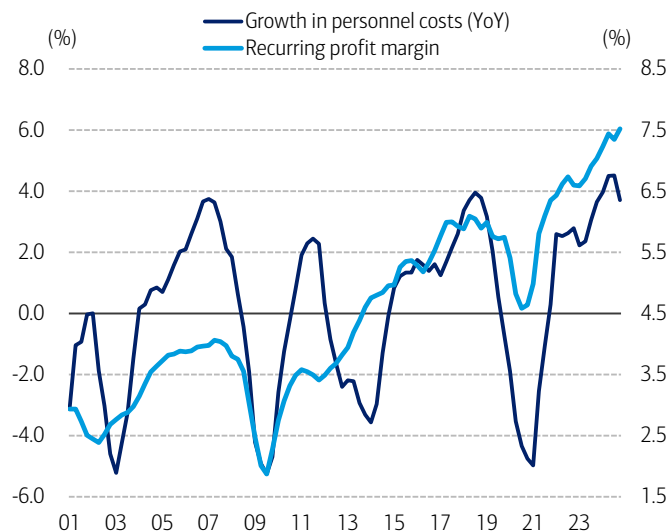
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Although personnel costs are rising for Japanese companies, they have been able to pass these costs onto prices, and margins are showing signs of improvement (Exhibit 7). Wage inflation may cause earnings gaps to widen among companies, but it is not a drag on overall earnings. While overall capex is likely to decelerate amid external uncertainties (see our 22 May [Japan Viewpoint](#) report), software investment remains resilient due to labor shortages (Exhibit 8). This should help boost productivity. We believe healthy inflation will be a supportive factor for corporate earnings.



Exhibit 7: Labor costs, recurring profit margin

Despite rising labor costs, margins improving on price pass-through

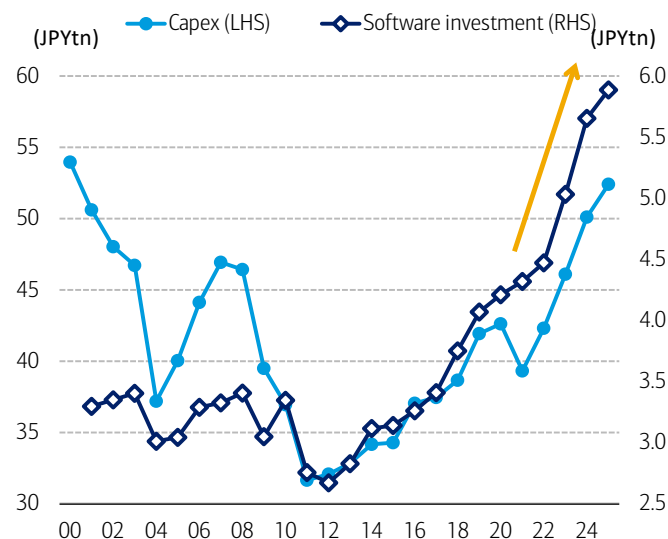


Source: BofA Global Research, MoF
Note: For companies of all sizes and all industries

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Exhibit 8: Tankan: Fixed investment and software investment plans (March survey for each year)

Software investment has surged since labor shortages worsened



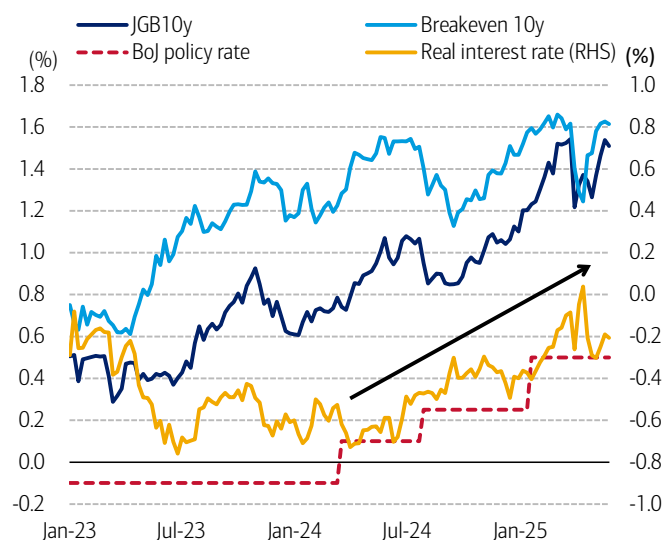
Source: BofA Global Research, BoJ
Note: Large enterprises, all industries. Fixed investment includes land where long-term series are available.

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The BoJ's shift away from a hawkish stance was also good news. While the US tariff policy was the direct trigger, easing cost-push inflation likely also played a major role. Since the second half of 2024, the BoJ had been the only major central bank leaning toward interest rate hikes, which weighed on Japanese equities (Exhibit 9, Exhibit 10). As long as wage inflation persists, the BoJ still has room to raise interest rates (our economists expect hikes to resume in April 2026, potentially earlier depending on tariffs). However, with less urgency to hike rates and hikes at a pace more in line with Japan's economic condition, this is not a significant negative for equities.

Exhibit 9: 10yr JGB yield, expected inflation, real yields, and BoJ policy rate

Real yields rose from 2H CY24, in line with BoJ rate hikes

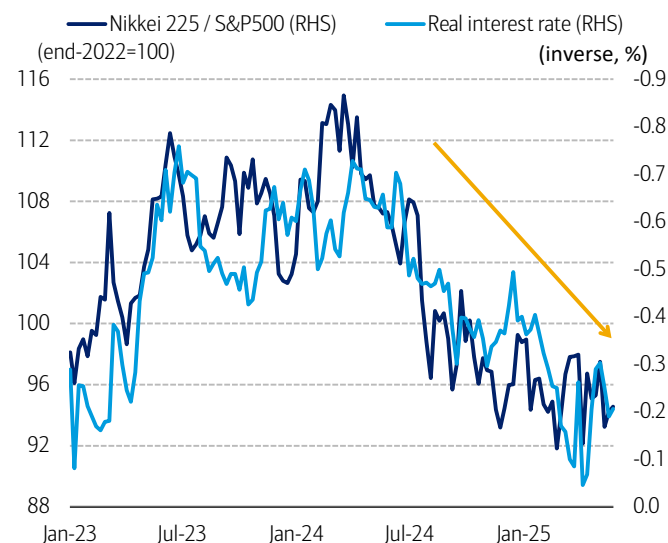


Source: BofA Global Research, Bloomberg

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Exhibit 10: Nikkei Average/S&P 500 and real yields

Rise in real yields a factor behind Japanese stocks' outperformance



Source: BofA Global Research, Bloomberg

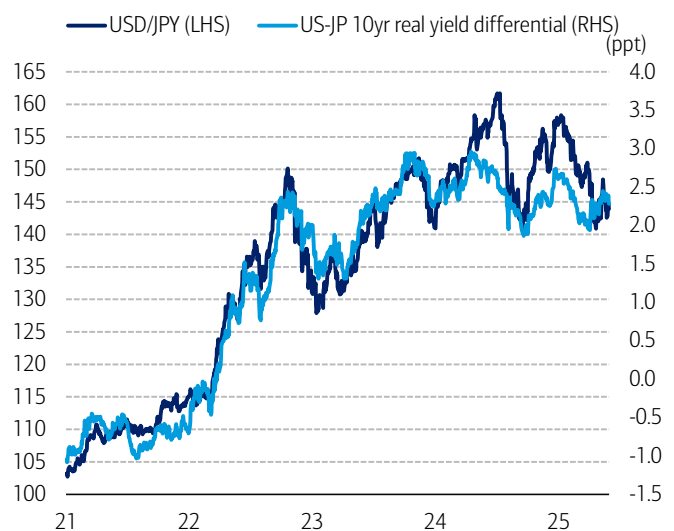
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Less dependence on forex

Does yen appreciation improve terms of trade but act as a drag on Japanese equities? Rapid yen appreciation would pose a significant risk, but we do not see this happening. In fact, the appreciation of the yen has stopped around the level suggested by the US-Japan real interest rate differential (Exhibit 11). Our forex strategist also notes that foreign direct investment and purchases of dollar assets by NISA investors are structural drivers of yen selling. Following the conclusion of US-Japan trade talks, increased direct investment in the US could further weaken the yen (Exhibit 12, our year-end forecast is ¥155/USD). This would likely trigger a correction in yen long positions, which have built up to record highs in the futures market.

Exhibit 11: US-Japan real yield spread and USD/JPY

Yen appreciation looks to have halted at level implied by US-Japan real yield spread

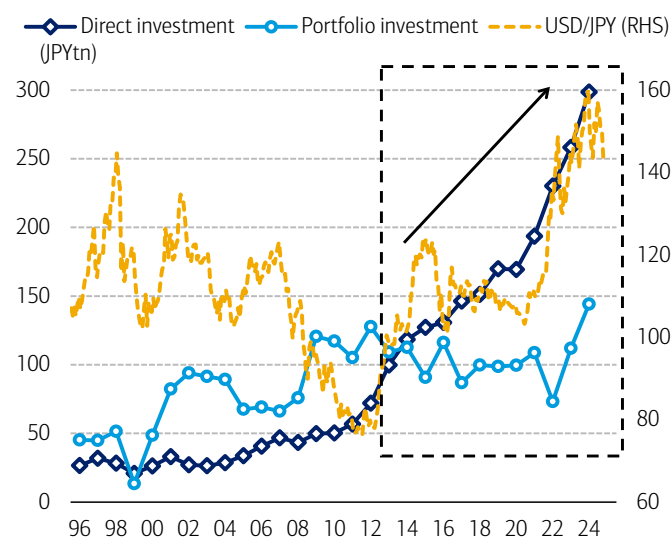


Source: BofA Global Research, Bloomberg

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Exhibit 12: Net foreign asset position from FDI and securities investment, USD/JPY

The increase in foreign direct investment (FDI) has been a persistent cause of yen selling



Source: BofA Global Research, MoF, Bloomberg

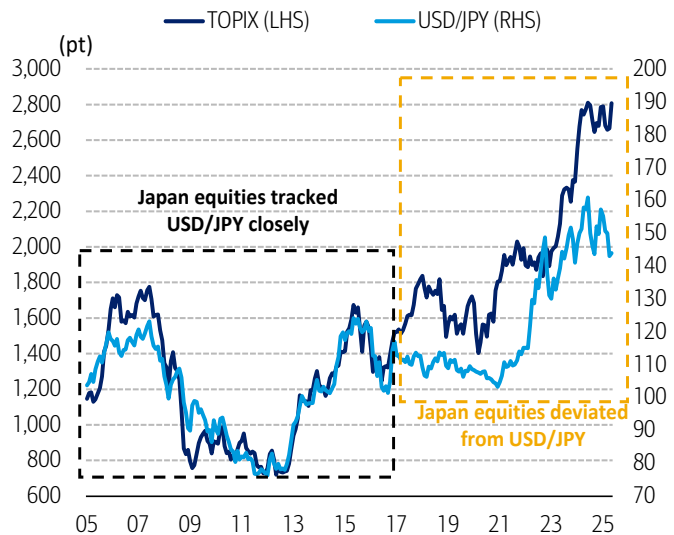
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However, the end of excessive yen weakness, combined with improved terms of trade and global economic stimulus from a weaker dollar, is not a negative for Japanese equities. This is because corporate earnings have become less sensitive to forex fluctuations (Exhibit 13, Exhibit 14). Bottom-up estimates suggest that ¥1 of appreciation versus USD depresses annual operating profit (OP) by around 0.4%, all else remaining the same. Applying a top-down approach, we estimate that ¥1 of appreciation versus USD depresses TOPIX EPS by around 0.35%, all else same. Their reduced impact on earnings can be attributed to (1) Japan's accelerated relocation of production bases overseas, and (2) Japan having focused its exports on high-quality products (the prices of which are affected less by exchange rate fluctuations).



Exhibit 13: TOPIX vs. USD/JPY

The impact exchange rates have on stock prices has declined in recent years

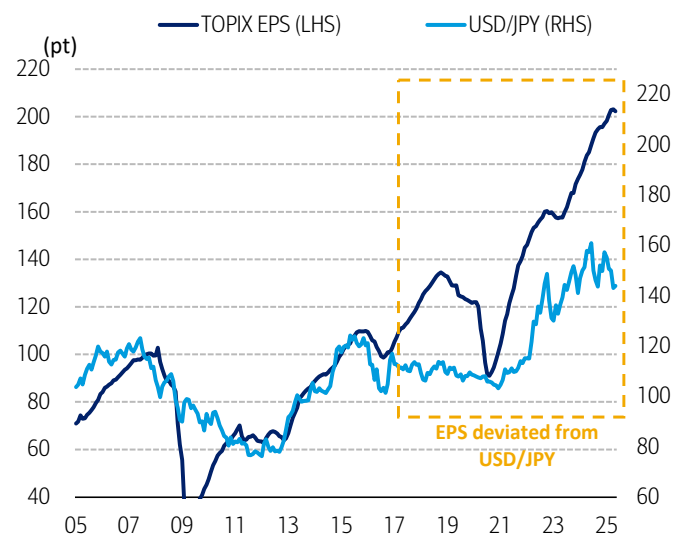


Source: BofA Global Research, Bloomberg

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Exhibit 14: TOPIX EPS vs. USD/JPY

The impact exchange rates have on EPS has declined in recent years



Source: BofA Global Research, Refinitiv

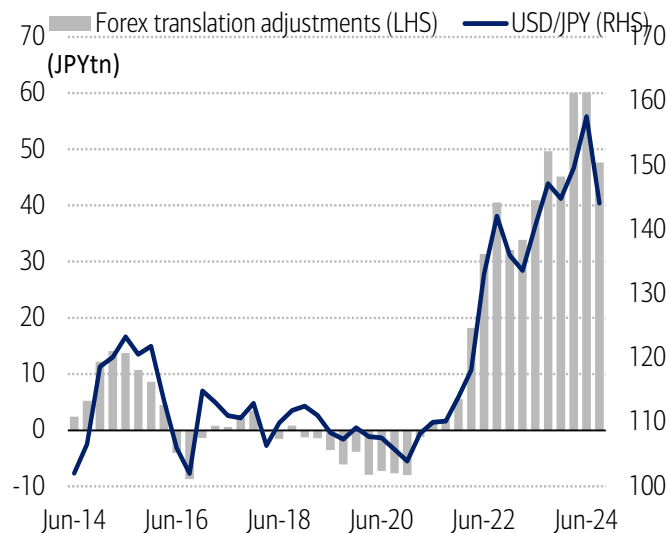
Note: EPS based on 12-month forward I/B/E/S consensus estimates.

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The end of excessive yen weakness might also help to improve ROE. The accelerated push to move production offshore in recent years has reduced the sensitivity of EPS to forex, but appears to have increased the impact on equity capital. Since 2022, improvement in ROE has lagged behind the sharp rebound in EPS, partly because rapid yen depreciation increased the forex translation adjustment amount on financial statements (difference with book value when translating the balance sheets of overseas subsidiaries into yen), expanding shareholders' equity (Exhibit 15).

Exhibit 15: USD/JPY and TOPIX's foreign currency translation adjustment

A weaker yen helps boost the foreign currency translation adjustment



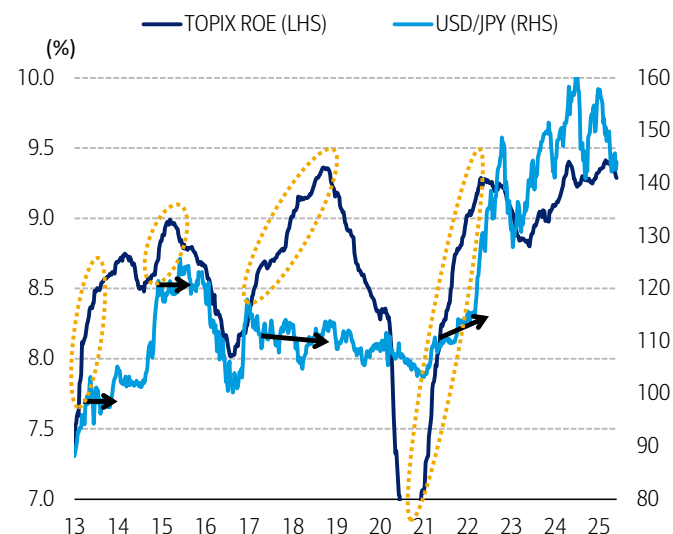
Source: BofA Global Research, QUICK

Note: we aggregate the TOPIX constituents with consistent data available over the last 10 years

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Exhibit 16: TOPIX ROE and USD/JPY

The ROE improvement tends to accelerate when USD/JPY trades flat



Source: BofA Global Research, Refinitiv

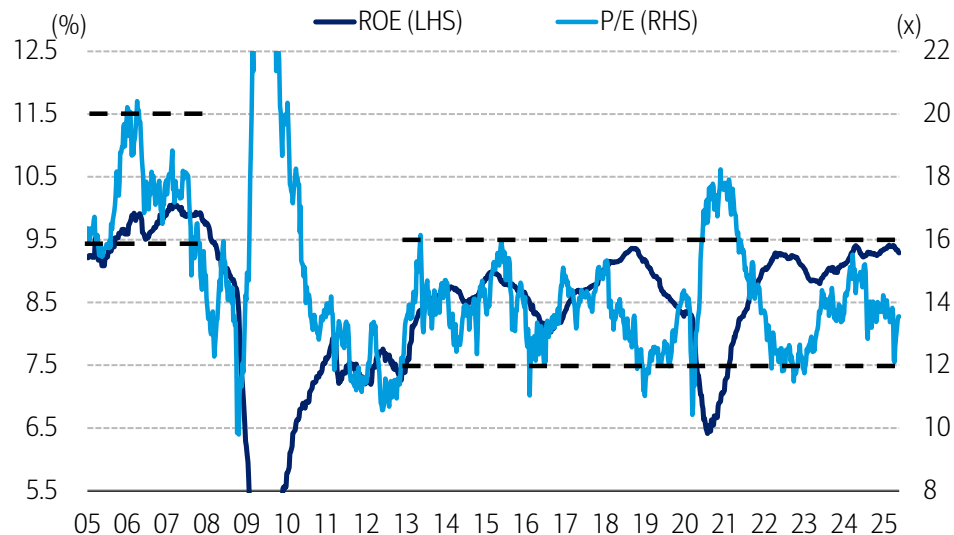
Note: Based on I/B/E/S 12-month forward ROE estimate

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It is noteworthy that ROE improved the most strongly in recent years during periods of forex stability (Exhibit 16). Taking into account the effects of corporate reforms, we expect ROE to break through the 9.5% ceiling seen in recent years once EPS enters the next recovery cycle (Exhibit 17). In this case, we would probably see a return of foreign investor capital into Japanese equities and a growing narrative that corporate reforms are bearing fruit.

Exhibit 17: TOPIX ROE and P/E

Range-bound since 2013: P/E 12-16x, ROE 7.5-9.5%



Source: BofA Global Research, Refinitiv

Note: Based on I/B/E/S 12-month forward ROE estimate

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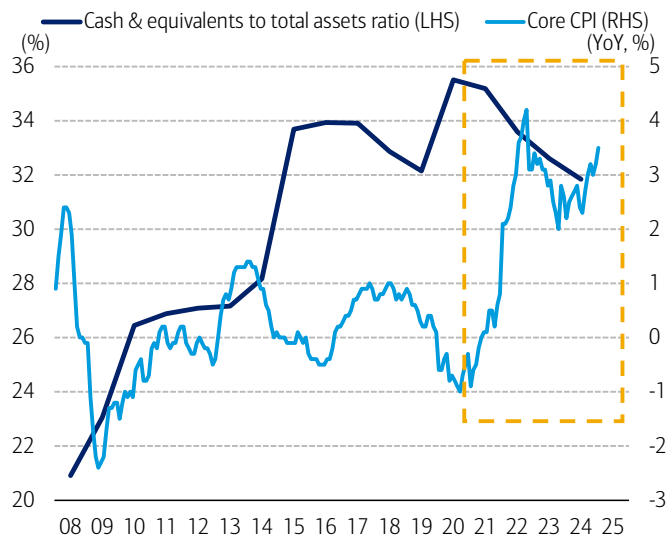
Acceleration of corporate reforms

We believe the transition to an inflationary economy has served as a key catalyst for corporate reforms. First of all, companies can no longer justify hoarding cash that is losing value. In fact, cash holdings by Japanese companies have shown a negative correlation with inflation (Exhibit 18).

Structural labor shortages have also created a need to continue raising wages, prompting a cycle where firms optimize pricing strategies, improve the quality of their products and services, and focus capital on competitive businesses/sell off unprofitable operations. The main driver of price hikes starting in 2022 was a jump in raw material prices; after this paused in 2023, companies' need to fund wage hikes took over (Exhibit 20, Exhibit 21). Labor shortages have also facilitated business streamlining and industry consolidation (Exhibit 19).

Exhibit 18: TOPIX firms' cash & equivalents/total assets, core CPI

Companies have stepped up use of cash since shift to positive inflation became clear

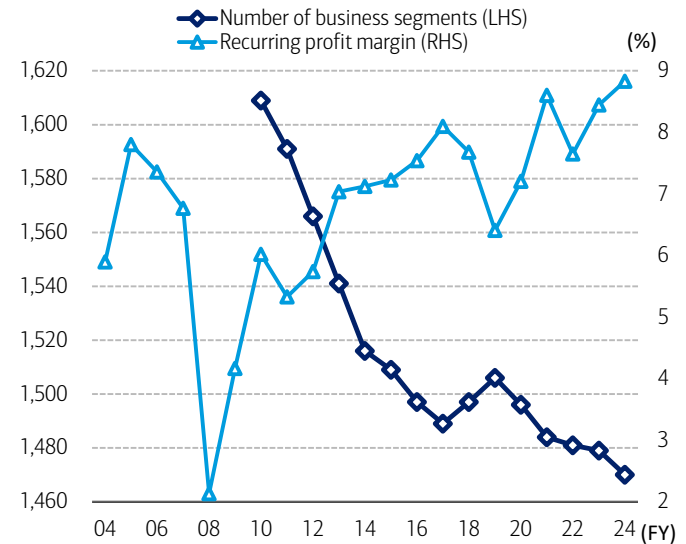


Source: BofA Global Research, QUICK
Note: Core CPI excludes impact of consumption tax hikes

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Exhibit 19: TOPIX business segments and recurring profit margin

Business segments tend to decrease over time



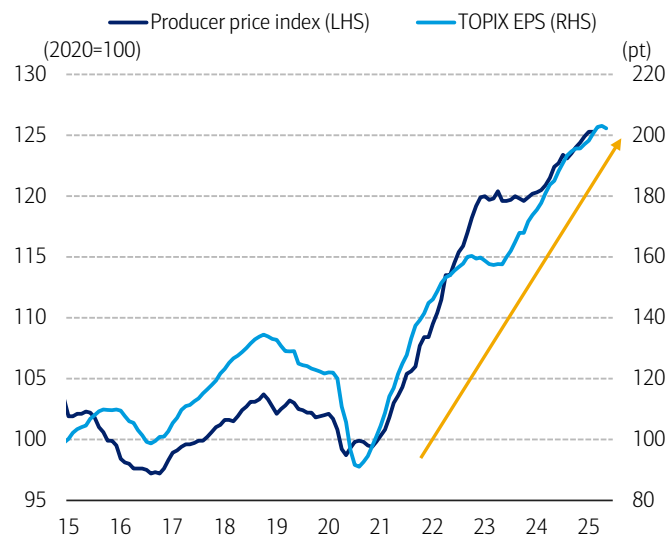
Source: BofA Global Research, QUICK

Note: we aggregate TOPIX companies with at least 3 business segments in FY2020

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Exhibit 20: TOPIX EPS and CGPI

Constant price hikes main driver of recent years' sharp profit growth



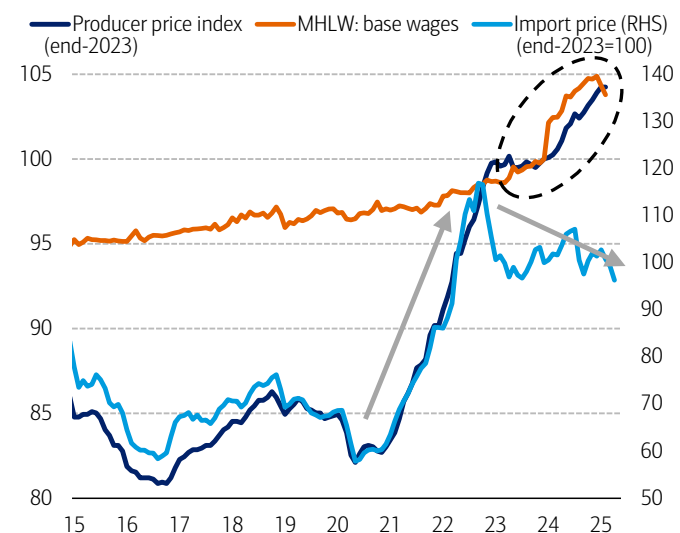
Source: BofA Global Research, Refinitiv, INDB

Note: EPS is I/B/E/S consensus 12-month forward forecasts. CGPI excludes impact of consumption tax hikes

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Exhibit 21: CGPI, scheduled cash earnings, and import price index

Price hikes initially driven mainly by rising import prices, now by need to fund wage hikes



Source: BofA Global Research, INDB

Note: CGPI excludes impact of consumption tax hikes. Scheduled cash earnings are our seasonally adjusted values.

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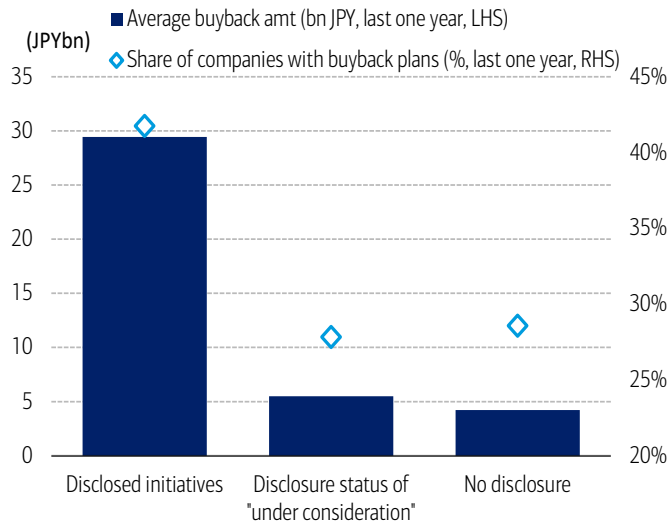
Regulatory initiatives by the TSE have also played a major role in driving corporate reforms. For instance, companies that have disclosed reform initiatives in response to TSE requests have been more proactive in share buybacks (Exhibit 22). These companies are also favored by foreign investors (Exhibit 23).

External pressure from the threat of acquisition by foreign companies and demands from activist investors has also pressed the need for corporate reforms. This made Japanese firms keenly aware of the dangers of failing to address a low share price or ROE. Unwinding strategic shareholdings enabled firms to fund buybacks while reducing

their stable shareholder ratios, creating scope for greater investor involvement (Exhibit 24).

Exhibit 22: Average buyback amount and share of companies with buyback plans by status of disclosure (past one year)

Companies with disclosure tend to conduct more share repurchases



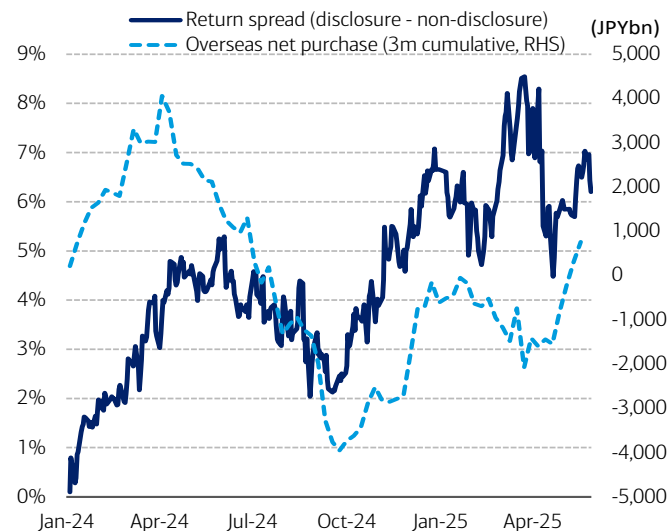
Source: BofA Global Research, QUICK

Note: Based on Prime listed companies. We calculate average buyback amount and share of companies with buyback plans released within the last one year after separating stocks into three groups by the status of disclosure on "Action to Implement Management that is Conscious of Cost of Capital".

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Exhibit 23: Return spread of disclosed vs. no disclosure companies in response to "Action to Implement Management that is Conscious of Cost of Capital and Stock Price"

Companies complying with TSE requests outperform

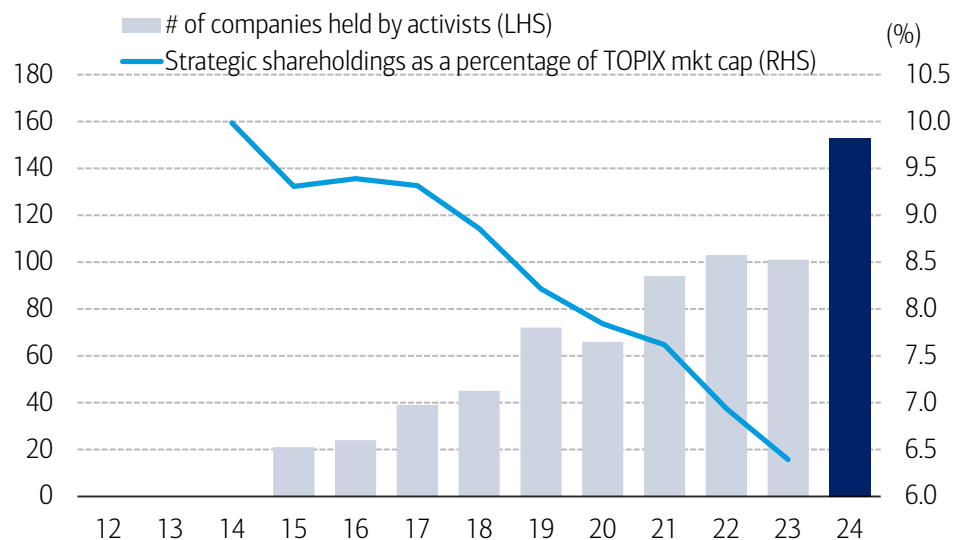


Source: BofA Global Research, QUICK

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Exhibit 24: Number of new activist investors vs. market cap of policy shareholdings as a fraction of TOPIX

The number of new activists increases as strategic shareholdings are unwound



Source: BofA Global Research, QUICK, Bloomberg

Note: We identify companies with activist investors based on Bloomberg definition. We aggregate stocks with at least 5% held by activist investors from Reports of Possession of Large Volume (Tairyo Hokokusho).

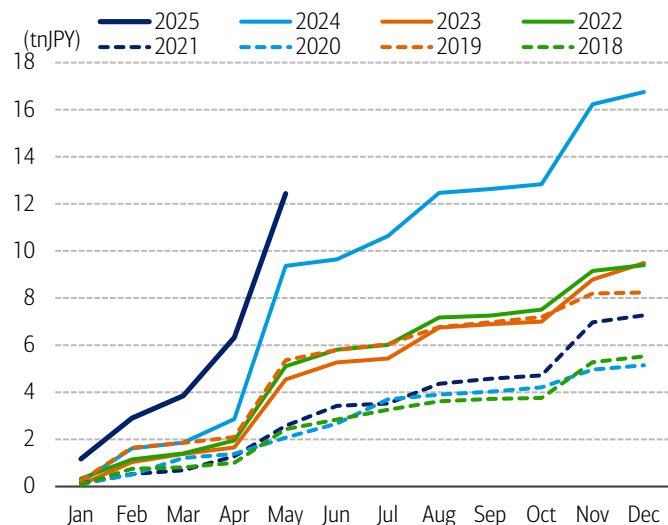
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So, what happened in the latest earnings season as a result of these developments? Despite weaker earnings guidance, share buybacks increased to levels even higher than last year's record-setting highs (Exhibit 25). This underscores the transformation of Japanese companies, and is also likely to support EPS growth (Exhibit 26). We also saw sharp increases in unwinding of parent-subsidiary listings, business restructuring, and adoption of progressive dividends or DOE targets (Exhibit 27, Exhibit 28). These internal changes enhanced management discipline and capital efficiency, becoming unique catalysts for Japanese equities.

Exhibit 25: Annual share buyback budgets

Share buybacks rising at a faster pace than last year, when they reached a record-high

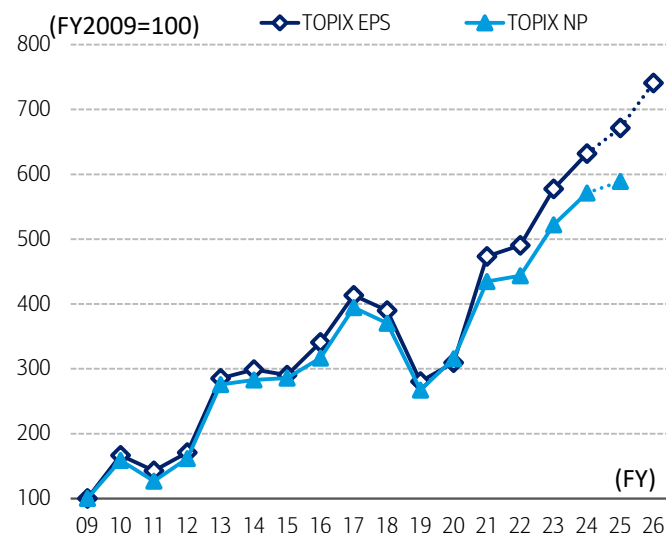


Source: BofA Global Research, QUICK
Note: based on TOPIX constituents

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Exhibit 26: TOPIX EPS and NP for Feb/Mar year-end TOPIX companies

TOPIX EPS growth has outpaced NP in recent years



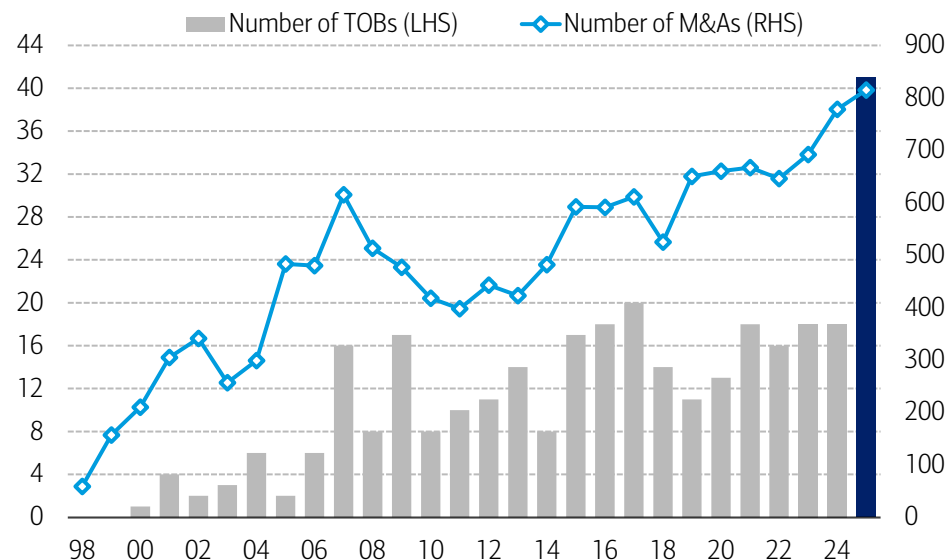
Source: BofA Global Research, Refinitiv, QUICK

Note: FY25/26 TOPIX EPS is I/B/E/S consensus forecasts. FY25 estimates for Feb/Mar-end TOPIX companies are QUICK consensus.

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Exhibit 27: Number of tender offers and M&A deals (Jan-May of each year)

Striking increase in tender offers this year



Source: BofA Global Research, Bloomberg

Note: Universe is TSE-listed firms. Tender offers indicate number of targeted firms. M&A is aggregate number of targeted, selling, and acquiring firms

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Exhibit 28: Key corporate reforms announced with full-year results

A raft of announcements

	Ticker	Company name	Details
Subsidiary divestiture	9432	NTT	Makes NTT Data Group wholly owned subsidiary, eliminating parent-subsidiary listing
	7203	TOYOTA MOTOR	Nikkei (19 May) reports Toyota Industries to accept acquisition by Toyota group and delist
	8058	MITSUBISHI	To make Mitsubishi Shokuhin wholly owned subsidiary and delist
	4507	SHIONOGI	To acquire Japan Tobacco's pharmaceutical business and subsidiary Torii Pharmaceutical (eliminating parent-subsidiary listing)
	1803	SHIMIZU	To make Nippon Road wholly owned subsidiary and delist
	5076	INFRONEER HOLDINGS	Announces acquisition of Sumitomo Mitsui Construction
	-	NTT Docomo	To make tender offer for SSNB, delisting the bank (Nikkei reported)
	-	MBOs	International logistics firm Nissin (9066), healthcare worker community website operator MedPeer (6095)
	8750	DAI-ICHI LIFE HOLDING	Announces plans to make UK-based Capula Investment Management, one of world's largest bond hedge funds, an equity-method affiliate (as part of goal of increasing ROE to around 10% by FY26)
	3382	SEVEN & I HOLDINGS	Nikkei (20 May) reports Seven & i will sell part of stake in Seven Bank to Itochu. To move is part of the retailer's effort to focus its resources on its core convenience store business by reducing its stake in the bank.
Corporate reforms	7201	NISSAN MOTOR	To close seven domestic/overseas plants, reduce headcount by 21,000 (15%) by FY3/28; will reduce component types by 70% vs. current levels
	7211	MITSUBISHI MOTORS	Begins discussions with Nissan on joint auto production at North American plant; will source EVs from Taiwan's Hon Hai
	6572	OPEN GROUP	Restructuring while profitable: 10,000 reduction in headcount, withdrawal from lossmaking businesses, consolidation of business locations
	9064	YAMATO HOLDINGS	Raising parcel delivery rates for individual customers, stepping up price-hike negotiations with corporate customers. Plans to reduce collection/delivery locations from around 2,900 in FY3/24 to around 1,800 in FY3/27
	6098	RECRUIT HOLDINGS	Aims to use AI to boost average ad price, improve internal productivity amid slowing US job openings. Will reduce net cash from ¥1.1tn in May 2024 to around ¥600bn by March 2026
	8306	MITSUBISHI UFJ FG	Has been seen as habitually conservative, but FY3/26 NP guidance ambitious. Moved forward target for strategic shareholding sales (to less than 20% of total assets) from FY3/30 to FY3/27
	8308	RESONA HOLDINGS	Targets DOE of around 3% in FY3/30, 2.1% in FY3/25. Rather than raising dividend weighting when profits are growing, signals intent to accelerate buybacks while consistently raising dividends; implies pickup in EPS growth
	8795	T&D HOLDINGS	Targets payout ratio of around 60% of group adjusted NP (five-year average). We estimate FY3/27 DPS of over ¥155 based on our estimates. Raised FY3/26 DPS guidance from ¥120 to ¥124.
	8802	MITSUBISHI ESTATE	Set new quantitative target for reducing strategic shareholdings. To cut FY3/28 holdings by at least 50% versus end-FY3/25. Announced buyback of up to ¥100bn more aggressive than previous policy (around ¥50bn per year, flexible approach to additional buybacks)
	4661	ORIENTAL LAND	Medium-term plan: Will use cash on hand, borrowing leeway to buy back up to ¥300bn in shares to brace for potential sales by existing shareholders. Targets FY35 revenue of over ¥1.0tn.
Changes in shareholder returns	8136	SANRIO	Medium-term plan: Targets ROE of 30% (previously 15%) by FY3/27. ¥50bn M&A budget including small investments, up to ¥30bn share buyback in event of no investments. Unveiled long-term vision as global IP
	7741	HOYA	Announced progressive dividend policy based on 40% payout ratio
Main share buybacks	8058	MITSUBISHI	Announced up to ¥1tn buyback (17.1% of outstanding excluding treasury stock); targets FY3/28 ROE of at least 12%
	7259	AISIN	Up to ¥120bn (17.2%)
	3382	SEVEN & I HOLDINGS	Up to ¥600bn (15.4%); already announced ¥2tn buyback by FY30 on 6 March
	9101	NIPPON YUSEN	Announced up to ¥150bn (10.4%) buyback, increase in payout ratio from 30% to 40% despite forecasting lower FY3/26 profits
	8795	T&D HOLDINGS	Up to ¥100bn (9.6%)
	6971	KYOCERA	Up to ¥200bn (9.0%); offers to acquire ¥250bn in own shares held by KDDI
	6702	FUJITSU	Up to ¥170bn (6.8%); total return ratio 57%
	8802	MITSUBISHI ESTATE	Up to ¥100bn (4.8%) funded by gains on sale of strategic shareholdings/fixed assets; raised annual dividend by ¥3 to ¥46
	9022	CENTRAL JAPAN RAILWAY	Up to ¥100bn (4.6%); first buyback targeting shareholder returns

Source: BofA Global Research

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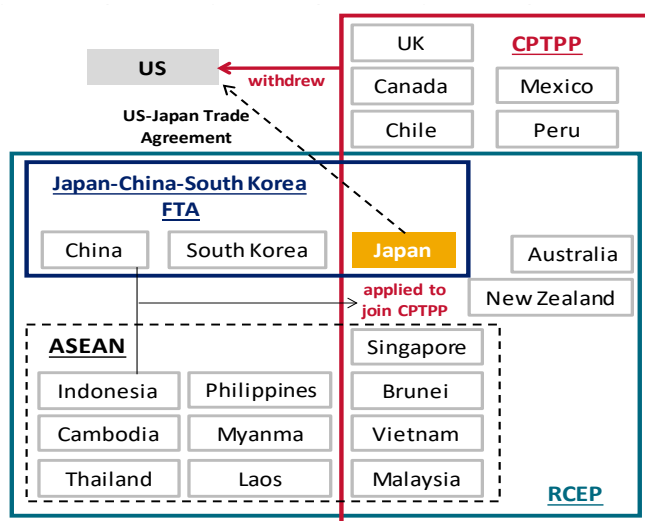
Japan's rising soft power

We also highlight Japan's rising soft power as a potential theme. With global trade relationships becoming untangled, particularly around the US, we believe Japan now has an opportunity to play a central role in free trade and cooperation with other nations. In his 29 May speech, Prime Minister Ishiba emphasized Japan's commitment to expanding free trade zones, with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) at the core. Prior to that, in late April, Prime Minister Ishiba and Liberal Democratic Party (LDP) leaders toured Southeast Asia and Europe while engaging in tariff negotiations with the Trump administration. Japan is geographically central to the Asian trade zone (Exhibit 29) and has also signed an Economic Partnership Agreement (EPA) with the EU, positioning it as a natural hub in global trade networks.

Japan's rising soft power may also be an important factor. For example, Japan's ranking in the Anholt-Ipsos Nation Brands Index (NBI), which ranks 60 countries and regions based on six categories (exports, governance, culture, people, tourism and immigration/investment), has improved notably since the late 2010s, with Japan ranking first in both 2023 and 2024 (Exhibit 30). In a fragmented world, Japan is well positioned to take the lead in international cooperation. We see it as crucial that Japan forges alliances with other countries on trade, defense, and exchanges while also working to align itself with the US.

Exhibit 29: Japan's economic partnership frameworks

Japan has a central role in trade within Asia

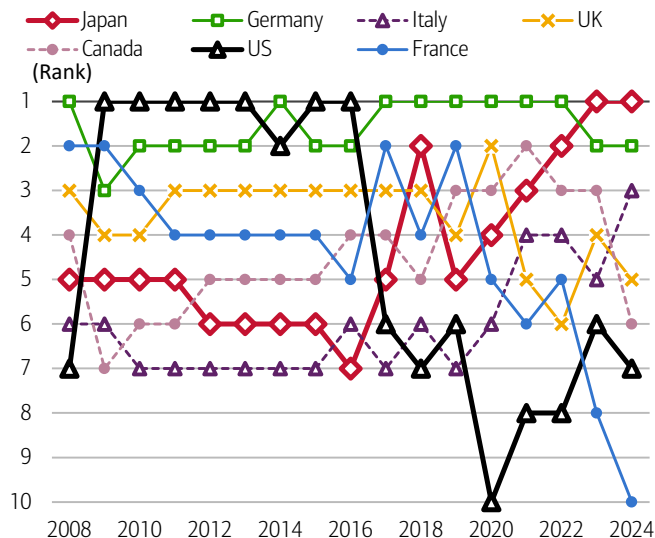


Source: BofA Global Research

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Exhibit 30: Nation Brands Index (NBI, G7 countries)

Japan ranked first globally in the Nation Brands Index in 2023 and 2024



Source: BofA Global Research, Anholt-Ipsos

Note: The NBI (Nation Brands Index) has surveyed perceptions of 60 countries in six categories—exports, governance, culture, people, tourism, and immigration/investment—since 2008 to measure national brand strength

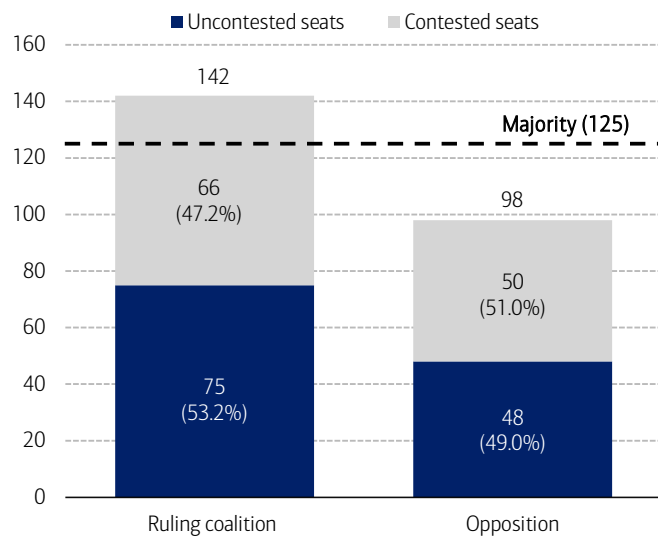
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Risk: Upper House election

So, what are the risks for Japanese equities? The most immediate risk is the Upper House election, scheduled for 20 July. Since it is difficult to predict the outcome at this point, we focus here on the fundamental matters. Unlike Lower House elections, less than half the seats held by the ruling coalition are up for grabs in the Upper House, limiting the potential for change (Exhibit 31). As a result, markets often grow cautious ahead of the election but tend to rebound after the election is over (Exhibit 32).

Exhibit 31: Upper house election; number of seats held by ruling and opposition parties

Less than half of the ruling party's seats in the upper house are up for re-election



Source: BofA Global Research
Note: Vacancies: 8 seats

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Exhibit 32: Nikkei 225 before and after Upper House elections

The market has tended to decline before Upper House elections and entered a relief rebound afterward

Year	NKY225 return (%)	
	Pre-election	Post-election
2001	-15.0	-15.1
2004	-5.2	-3.0
2007	-0.7	-0.6
2010	-14.5	0.2
2013	-0.1	-0.7
2016	-12.9	11.3
2019	0.6	1.5
2022	-0.7	3.0

Source: BofA Global Research, Nikkei Shimbun

Note: Measures performance over the 50 trading days before and after the election. Shading indicates elections where the ruling party lost

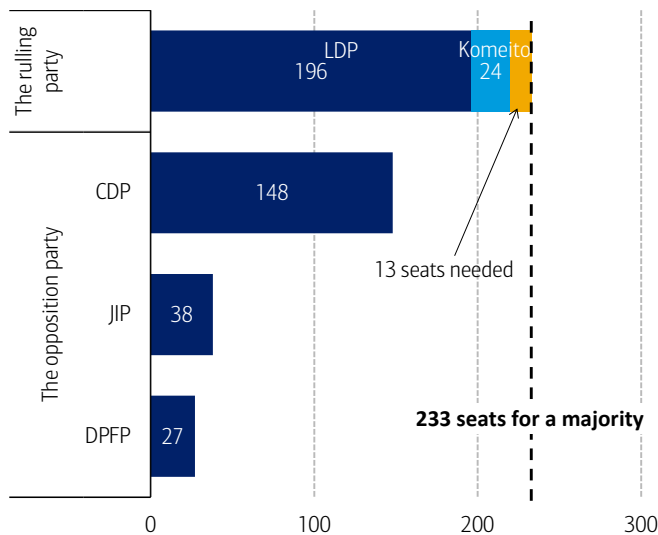
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Former Prime Minister Kishida has noted that, depending on the outcome of the election, a broader coalition could come into power (Nikkei article on 29 May; Exhibit 33). If a broader coalition were formed, it could increase the stability of the administration, but if a coalition partner pushes for a cut in the consumption tax, the risk of an increase in interest rates could materialize, depending on how such a tax cut would be funded (income tax hikes could restrain upward pressure on interest rates; Exhibit 34).



Exhibit 33: Number of seats held by the major parties in the Lower House

The ruling party holds less than a majority of seats in the Lower House



Source: BofA Global Research, Nikkei Shimbun

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Exhibit 34: Manifestos of key political parties on consumption tax cut

All of the major opposition parties intend to include a consumption tax cut in their manifestos for the July Upper House election

Party	Number of seats in the lower house	Consumption tax cut manifesto
LDP	Leadership, etc. Some	191 Cautious about lowering consumption tax Reducing the tax rate on food items
Komeito (Saito, Chief)	24	Reducing the tax rate on food items to 5%
CDP	148	Reducing the tax rate on food items to 0% for one year (extendable to two years)
JIP	38	Reducing the tax rate on food items to 0% for two years
DPFP	27	Temporarily reducing consumption tax across the board to 5%
ICP	8	Abolishing consumption tax entirely in the future and reducing it across the board to 5% urgently
Reiwa	9	Abolishing consumption tax entirely

Source: BofA Global Research

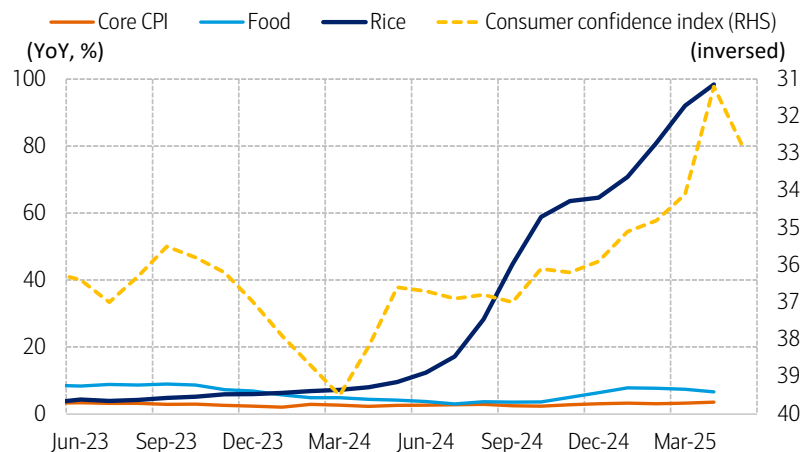
Note: quoted from [28 May Japan Viewpoint](#)

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Agriculture Minister Koizumi's recent pivot to release government stockpiles of rice directly to retailers could also influence the election outcome. While success is highly uncertain, if this release of stockpiles lowers the price of rice, which are up nearly 100% YoY, it could improve consumer sentiment and help ease election-related risk for Japanese equities (Exhibit 35).

Exhibit 35: Core CPI, CPI of food and rice, and consumer confidence index

Rice CPI rising YoY near 100, consumer sentiment has worsened



Source: BofA Global Research, INDB

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Corporate reform theme: Three unwindings

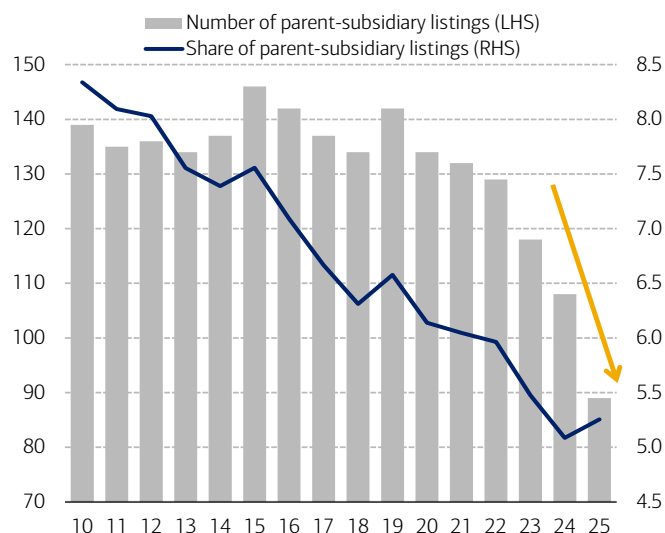
Lastly, we explore three key corporate reform-related investment themes: the unwinding of parent-subsidary listings, reducing of strategic shareholdings, and disposing of idle real estate.



Parent-subsidary listings had already been on a gradual decline, but the pace accelerated after the TSE called upon companies in 2023 to manage operations with a greater awareness of the cost of capital and share prices (Exhibit 36). In Feb this year, the TSE published The Investor's Perspective on Such Matters as Parent-Subsidiary Listings, where it pointed out that most companies that have parent-subsidiary listings have not sufficiently examined or disclosed their significance. This suggests that maintaining parent-subsidiary listings is becoming more difficult. Since 2024, growing pressure from the TSE and an increase in parent-subsidiary listing unwindings have tended to increase the relative returns of subsidiaries and their parents (Exhibit 37). Exhibit 38 and Exhibit 39 show major listed parent-subsidiary pairs.

Exhibit 36: Number of parent-subsidiary listings and their proportion of TOPIX stocks

Unwinding of parent-subsidiary listings accelerated from 2023



Source: BofA Global Research, QUICK
Note: based on TOPIX constituents

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Exhibit 37: Relative return of subsidiaries against to parent companies

Subsidiaries have outperformed parent companies since 2024



Source: BofA Global Research, Bloomberg
Note: based on TSE listed names

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Exhibit 38: Parent-subsidiary listings

Parent-subsidiary listings where subsidiary has ¥20bn+ market cap, in descending order of subsidiary market cap

Subsidiary					Parent			
TSE Code	Name	Sector	Mkt cap (JPYbn)	Voting rights ratio held by parent (%)	TSE Code	Name	Sector	Mkt cap (JPYbn)
9434	SOFTBANK	Inf.&Com.	10,570		9984	SOFTBANK G	Inf.&Com.	11,467
9613	NTT DATA G	Inf.&Com.	5,595		9432	NIPPON TELEGRAPH & TELEPHONE	Inf.&Com.	13,709
7182	JAPAN POST BANK	Banks	5,524		6178	JAPAN POST HD	Services	3,966
4689	LY	Inf.&Com.	3,800		9434	SOFTBANK	Inf.&Com.	10,570
4091	NIPPON SANSO HD	Chemicals	2,192		4188	MITSUBISHI CHEMICAL G	Chemicals	1,135
3092	ZOZO	Retail Trade	1,402		4689	LY	Inf.&Com.	3,800
9719	SCSK	Inf.&Com.	1,335		8053	SUMITOMO	Whsle Trade	4,434
7181	JAPAN POST INSURANCE	Insurance	1,180	49.9	6178	NIPPON POST HD	Services	3,966
4151	KYOWA KIRIN	Pharm.	1,177	55.2	2503	KIRIN HD	Foods	1,904
5838	RAKUTEN BANK	Banks	1,145		4755	RAKUTEN G	Services	1,716
4784	GMO INTERNET	Services	887	47.3	9449	GMO INTERNET G	Inf.&Com.	377
2327	NS SOLUTIONS	Inf.&Com.	698		5401	NIPPON STEEL	Iron & Steel	3,127
3769	GMO PAYMENT GATEWAY	Inf.&Com.	659	40.7	9449	GMO INTERNET G	Inf.&Com.	377
8572	ACOM	Oth.Fin.Bus.	657		8306	MITSUBISHI UFJ FINANCIAL G	Banks	23,858
8905	AEON MALL	Real Estate	651	58.8	8267	AEON	Retail Trade	3,853
8060	CANON MARKETING JAPAN	Whsle Trade	590	51.2	7751	CANON	Elec. App.	5,799
3141	WELCIA HD	Retail Trade	536		8267	AEON	Retail Trade	3,853
4812	DENTSU SOKEN	Inf.&Com.	443	61.8	4324	DENTSU G	Services	820
6368	ORGANO	Machinery	358		4042	TOSOH	Chemicals	689
8410	SEVEN BANK	Banks	318		3382	SEVEN & I HD	Retail Trade	5,631
4506	SUMITOMO PHARMA	Pharm.	308		4005	SUMITOMO CHEMICAL	Chemicals	555
7451	MITSUBISHI SHOKUJIN	Whsle Trade	275		8058	MITSUBISHI	Whsle Trade	11,824
8570	AEON FINANCIAL SERVICE	Oth.Fin.Bus.	272	50.0	8267	AEON	Retail Trade	3,853
9787	AEON DELIGHT	Services	261	58.8	8267	AEON	Retail Trade	3,853
7205	HINO MOTORS	Trans.Equip.	258		7203	TOYOTA MOTOR	Trans.Equip.	41,699
8283	PALTAC	Whsle Trade	256	51.7	7459	MEDIPAL HD	Whsle Trade	497
7105	MITSUBISHI LOGISNEXT	Trans.Equip.	228		7011	MITSUBISHI HEAVY INDUSTRIES	Machinery	11,079
6744	NOHMI BOSAI	Elec. App.	224		9735	SECOM	Services	2,489
1949	SUMITOMO DENSETSU	Construction	215		5802	SUMITOMO ELECTRIC INDUSTRIES	Nonfer.Mtls	2,272
4483	JMDC	Inf.&Com.	214		6645	OMRON	Elec. App.	782
8133	ITOCHU ENEX	Whsle Trade	197		8001	ITOCHU	Whsle Trade	11,914
4551	TORII PHARMACEUTICAL	Pharm.	183	54.8	2914	JAPAN TOBACCO	Foods	8,854
8278	FUJI	Retail Trade	178	50.6	8267	AEON	Retail Trade	3,853
3222	UNITED SUPER MARKETS HD	Retail Trade	178	52.9	8267	AEON	Retail Trade	3,853
5191	SUMITOMO RIKO	Rubber Prod.	175		5802	SUMITOMO ELECTRIC INDUSTRIES	Nonfer.Mtls	2,272
7222	NISSAN SHATAI	Trans.Equip.	146		7201	NISSAN MOTOR	Trans.Equip.	1,339
7630	ICHIBANYA	Retail Trade	145		2810	HOUSE FOODS G	Foods	268
7970	SHIN-ETSU POLYMER	Chemicals	135		4063	SHIN-ETSU CHEMICAL	Chemicals	9,127
7512	AEON HOKKAIDO	Retail Trade	124	67.1	8267	AEON	Retail Trade	3,853
2692	ITOCHU-SHOKUJIN	Whsle Trade	123		8001	ITOCHU	Whsle Trade	11,914

Source: BofA Global Research, QUICK

Note: We screened the TOPIX universe using the following criteria. (1) Parent-subsidiary listings, (2) subsidiary market cap at least ¥20bn. Listed in descending order of subsidiary market cap. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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Exhibit 39: Parent-subsidiary listings (cont.'d)

Parent-subsidiary listings where subsidiary has ¥20bn+ market cap, in descending order of subsidiary market cap

Subsidiary					Parent			
TSE Code	Name	TSE Code	Name	TSE Code	Name	TSE Code	Name	TSE Code
2281	PRIMA MEAT PACKERS	Foods	114		8001	ITOCHU	Whsle Trade	11,914
1884	NIPPON ROAD	Construction	110		1803	SHIMIZU	Construction	1,117
7739	CANON ELECTRONICS	Elec. App.	108	55.2	7751	CANON	Elec. App.	5,799
5449	OSAKA STEEL	Iron & Steel	106		5401	NIPPON STEEL	Iron & Steel	3,127
5352	KROSAKI HARIMA	Gl.&Cer.Prod	101		5401	NIPPON STEEL	Iron & Steel	3,127
6345	AICHI	Machinery	101		6201	TOYOTA INDUSTRIES	Trans.Equip.	5,846
8892	ES-CON JAPAN	Real Estate	98	51.1	9502	CHUBU ELECTRIC POWER	Elec.Pwr&Gas	1,324
8014	CHORI	Whsle Trade	94		3402	TORAY INDUSTRIES	Text&Apparel	1,636
4974	TAKARA BIO	Chemicals	94		2531	TAKARA HD	Foods	248
1871	PS CONSTRUCTION	Construction	82		1801	TAISEI	Construction	1,457
7513	KOJIMA	Retail Trade	81	50.7	3048	BIC CAMERA	Retail Trade	279
5727	TOHO TITANIUM	Nonfer.Mtls	77		5020	ENEOS HD	Oil&Coal P.	1,815
8244	KINTETSU DEPARTMENT STORE	Retail Trade	75	69.4	9041	KINTETSU G HD	Land Trans.	548
4326	INTAGE HD	Inf.&Com.	72	51.0	9432	NIPPON TELEGRAPH & TELEPHONE	Inf.&Com.	13,709
2003	NITTO FUJI FLOUR MILLING	Foods	70		8058	MITSUBISHI	Whsle Trade	11,824
4997	NIHON NOHYAKU	Chemicals	66		4401	ADEKA	Chemicals	270
2211	FUJIYA	Foods	62	54.4	2212	YAMAZAKI BAKING	Foods	726
2698	CAN DO	Retail Trade	59	51.1	8267	AEON	Retail Trade	3,853
4765	SBI GLOBAL ASSET MANAGEMENT	Services	57		8473	SBI HD	Sec.&Com.Fut	1,245
9946	MINISTOP	Retail Trade	53		8267	AEON	Retail Trade	3,853
4343	AEON FANTASY	Services	52	60.6	8267	AEON	Retail Trade	3,853
3198	SFP HD	Retail Trade	49	58.9	3387	CREATE RESTAURANTS HD	Retail Trade	300
6099	ELAN	Services	47	55.0	2413	M3	Services	1,373
6937	FURUKAWA BATTERY	Elec. App.	45		5801	FURUKAWA ELECTRIC	Nonfer.Mtls	473
9632	SUBARU ENTERPRISE	Services	42	54.2	9602	TOHO	Inf.&Com.	1,378
4714	RISO KYOIKU	Services	40	51.1	3003	HULIC	Real Estate	1,120
3688	CARTA HD	Inf.&Com.	38	53.2	4324	DENTSU G	Services	820
2737	TOMEN DEVICES	Whsle Trade	38		8015	TOYOTA TSUSHO	Whsle Trade	3,156
7198	SBI ARUHI	Oth.Fin.Bus.	36		8473	SBI HD	Sec.&Com.Fut	1,245
1930	HOKURIKU ELECTRICAL CONSTRUCT	Construction	35		9505	HOKURIKU ELECTRIC POWER	Elec.Pwr&Gas	148
5659	NIPPON SEISEN	Iron & Steel	34		5471	DAIDO STEEL	Iron & Steel	209
2148	ITMEDIA	Services	33		9984	SOFTBANK G	Inf.&Com.	11,467
3922	PR TIMES	Inf.&Com.	31		6058	VECTOR	Services	44
7102	NIPPON SHARYO	Trans.Equip.	31		9022	CENTRAL JAPAN RAILWAY	Land Trans.	3,255
3546	ALLEANZA HD	Retail Trade	31		9956	VALOR HD	Retail Trade	132
9726	KNT-CT HD	Services	29		9041	KINTETSU G HD	Land Trans.	548
9216	BEWITH	Services	25	55.7	2168	PASONA G	Services	85
3788	GMO GLOBALSIGN HD	Inf.&Com.	24	52.0	9449	GMO INTERNET G	Inf.&Com.	377
6050	E-GUARDIAN	Services	24	49.8	3962	CHANGE HD	Inf.&Com.	88

Source: BofA Global Research, QUICK

Note: We screened the TOPIX universe using the following criteria. (1) Parent-subsidiary listings, (2) subsidiary market cap at least ¥20bn. Listed in descending order of subsidiary market cap. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

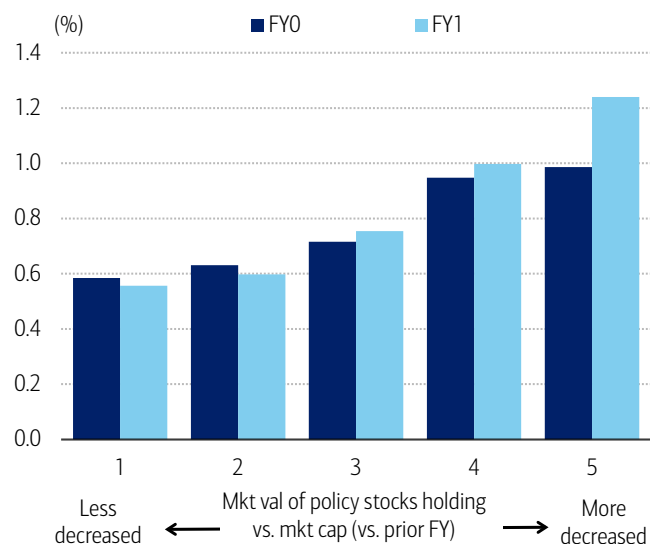
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Next, the unwinding of strategic shareholdings is likely to continue accelerating. Out of five groups of stocks based on the amount of strategic shareholdings sold (relative to the market capitalization of the company owning the shares), those with larger sale amounts tend to buy back more shares (Exhibit 40). Additionally, those with fewer strategic shareholdings tend to have higher ROEs (Exhibit 41). These points indicate that the unwinding of strategic shareholdings contributes to improved capital efficiency.

Exhibit 40: The rate of policy holdings stocks decrease (vs. mkt cap) and share buybacks (vs. mkt cap)

Stocks with large policy-holdings unwind tend to repurchase their stocks



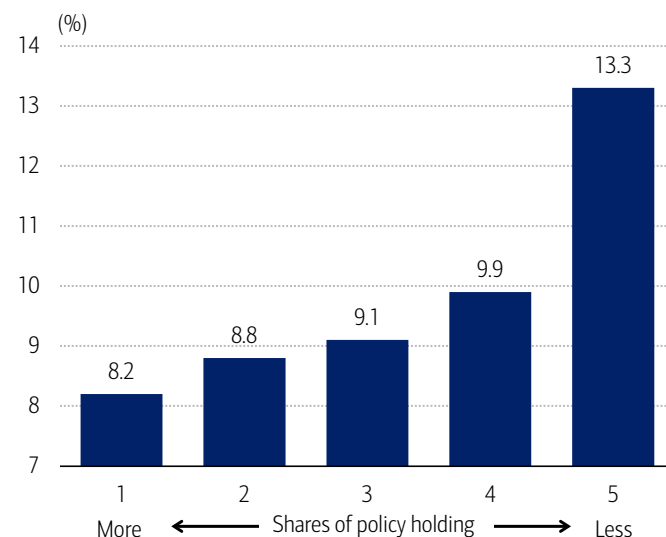
Source: BofA Global Research, QUICK

Note: Based on TOPIX, we separate the decrease of policy holdings (vs. mkt cap) into five groups and calculate the average share buybacks of current fiscal year and next fiscal year (vs. mkt cap).

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Exhibit 41: Shares of policy holdings vs. average ROE

Fewer strategic shareholdings tend to have higher ROEs



Source: BofA Global Research, QUICK

Note: We calculate the average ROE after grouping stocks based on their shares of policy holdings

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However, shares of companies with strategic shareholdings are often held by other companies, a situation that involves supply-demand risk. In fact, since FY3/24 results, when announcements of cross-shareholding unwinding increased, the performance of companies heavily held by other companies has deteriorated (Exhibit 42; now that the fiscal year-end of March has passed, selling pressure should ease until the next round of unwinding targets is announced with the upcoming results). When focusing on the effective use of funds from the sale of strategic shareholdings, we would select stocks that are not heavily owned by other companies.

Exhibit 43 stocks with strategic shareholdings (as a percentage of market capitalization) of 5% or more (relative to market capitalization) and at least 1.5x the percentage of their shares owned by other companies. Strategic shareholdings reflect the numbers when the data was acquired and may have changed recently.

Exhibit 42: Relative return of companies substantially being held as policy stocks (vs. TOPIX)

Since full-year results were announced in May 2024, the performance of companies heavily held by other companies has deteriorated



Source: BofA Global Research, QUICK

Note: we calculate the relative return of TOPIX names with 400 bn JPY mkt cap and policy holdings amount being held by other companies at least 12% vs. mkt cap.

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Exhibit 43: Stocks with policy holdings stocks vs. market cap above 5% and the ratio of policy holdings stocks-to-policy holdings being held by other companies above 1.5

Stocks with ample room to improve capital efficiency by unwinding strategic shareholdings

TSE code	Name	Sector	Mkt cap (JPYbn)	FY1 RP revision (% vs. 3 months prior)	Number of holding names	Mkt val of holding shares (% vs. mkt cap)	Number of companies with shares held	Mkt val of shares held (% vs. mkt cap)
8306	MITSUBISHI UFJ FG	Banks	23,858	-1.7	65.0	14.5	970.0	6.9
8316	SUMITOMO MITSUI FG	Banks	14,066	-2.1	57.0	17.5	683.0	4.6
9432	NIPPON TELEGRAPH & TELEPHONE	Inf.&Com.	13,709	-5.1	18.0	6.6	59.0	2.4
8766	TOKIO MARINE HD	Insurance	11,389	-13.7	223.0	24.9	166.0	8.0
8411	MIZUHO FG	Banks	9,952	-1.1	71.0	22.2	839.0	5.8
6503	MITSUBISHI ELECTRIC	Elec. App.	6,477	0.5	59.0	8.1	73.0	5.2
6902	DENSO	Trans.Equip.	5,548	-3.4	11.0	15.2	25.0	8.6
8725	MS&AD INSURANCE GROUP HD	Insurance	5,287	-1.6	287.0	55.2	212.0	6.5
8630	SOMPO HD	Insurance	4,213	1.8	201.0	33.5	166.0	4.2
8308	RESONA HD	Banks	2,965	9.2	149.0	24.0	335.0	6.4
8309	SUMITOMO MITSUI TRUST GROUP	Banks	2,681	-8.2	126.0	44.5	430.0	11.2
6971	KYOCERA	Elec. App.	2,612	-21.8	14.0	67.2	21.0	6.1
9101	NIPPON YUSEN	Marine Trans	2,405	-17.0	31.0	9.5	31.0	5.2
5802	SUMITOMO ELECTRIC INDUSTRIES	Nonfer.Mtls	2,272	3.3	59.0	11.5	46.0	5.0
1812	KAJIMA	Construction	1,897	3.1	59.0	13.6	51.0	5.5
9503	KANSAI ELECTRIC POWER	Elec.Pwr&Gas	1,817	4.9	42.0	9.4	44.0	5.7
5020	ENEOS HD	Oil&Coal P.	1,815	-25.0	34.0	5.1	55.0	1.9
3402	TORAY INDUSTRIES	Text&Apparel	1,636	-8.7	58.0	14.5	50.0	8.9
1802	OBAYASHI	Construction	1,578	1.0	60.0	21.8	50.0	4.3
1801	TAISEI	Construction	1,457	7.1	60.0	23.9	43.0	6.9
7911	TOPPAN HD	Other Prod.	1,140	-4.2	49.0	24.8	86.0	10.6
1803	SHIMIZU	Construction	1,117	13.4	60.0	23.6	42.0	7.6
7912	DAI NIPPON PRINTING	Other Prod.	1,103	-1.5	59.0	31.3	75.0	10.7
7186	CONCORDIA FG	Banks	1,056	6.1	60.0	18.8	125.0	9.3
5713	SUMITOMO METAL MINING	Nonfer.Mtls	992	-15.1	40.0	21.9	37.0	12.6
5831	SHIZUOKA FG	Banks	958	8.1	60.0	46.0	93.0	10.8
5201	AGC	Gl.&Cer.Prod	925	-4.7	8.0	6.3	46.0	2.8
9404	NIPPON TELEVISION HD	Inf.&Com.	870	10.4	20.0	32.2	18.0	9.3
2768	SOJITZ	Whsle Trade	799	-3.6	23.0	5.7	42.0	1.3
9401	TBS HD	Inf.&Com.	787	2.8	39.0	91.1	41.0	29.9
1944	KINDEN	Construction	774	8.3	60.0	11.5	13.0	2.7
8354	FUKUOKA FG	Banks	743	0.7	61.0	18.2	104.0	12.1
5844	KYOTO FG	Banks	736	-10.1	65.0	158.8	67.0	21.2
2327	NS SOLUTIONS	Inf.&Com.	698	0.7	4.0	10.8	1.0	0.0
7167	MEBUKI FG	Banks	697	7.6	60.0	21.7	99.0	9.1
3861	OJI HD	Pulp&Paper	687	-13.3	60.0	15.9	70.0	9.0
5406	KOBE STEEL	Iron & Steel	655	-3.3	31.0	21.8	52.0	7.0
1942	KANDENKO	Construction	608	-0.8	58.0	9.6	8.0	1.4
6963	ROHM	Elec. App.	575	-51.4	9.0	7.6	13.0	4.2
7261	MAZDA MOTOR	Trans.Equip.	570	-70.3	3.0	19.9	45.0	11.4
8359	HACHIJUNI BANK	Banks	565	7.8	64.0	94.4	93.0	15.5
4005	SUMITOMO CHEMICAL	Chemicals	555	12.1	17.0	7.2	29.0	1.6
5333	NGK INSULATORS	Gl.&Cer.Prod	528	-11.1	39.0	12.0	30.0	6.9
5947	RINNAI	Metal Prod.	519	1.9	60.0	9.0	31.0	5.8
9001	TOBU RAILWAY	Land Trans.	514	-0.9	34.0	16.5	25.0	5.1
7459	MEDIPAL HD	Whsle Trade	497	-1.9	43.0	18.0	36.0	8.2
5830	IYOGIN HD	Banks	490	-14.1	133.0	69.9	81.0	16.2
8334	GUNMA BANK	Banks	481	11.0	60.0	16.8	48.0	9.2
6753	SHARP	Elec. App.	468	-29.9	19.0	11.0	27.0	0.9
5938	LIXIL	Metal Prod.	466	-35.2	44.0	12.5	41.0	0.6
5110	SUMITOMO RUBBER INDUSTRIES	Rubber Prod.	462	-3.0	24.0	9.4	26.0	4.6
8377	HOKUHOKU FG	Banks	460	27.5	81.0	35.4	130.0	7.3
5901	TOYO SEIKAN GROUP HD	Metal Prod.	452	0.0	59.0	23.6	33.0	11.5
2433	HAKUHODO DY HD	Services	445	0.8	72.0	18.8	14.0	6.2
1721	COMSYS HD	Construction	439	2.8	29.0	5.7	18.0	3.5
5233	TAIHEIYO CEMENT	Gl.&Cer.Prod	437	-1.1	48.0	10.5	38.0	2.6
5105	TOYO TIRE	Rubber Prod.	430	-4.8	11.0	7.3	14.0	4.8
9301	MITSUBISHI LOGISTICS	Whsng&H.Tr.S	427	4.5	30.0	34.7	28.0	19.3
9364	KAMIGUMI	Whsng&H.Tr.S	423	4.7	59.0	7.6	20.0	3.4
9533	TOHO GAS	Elec.Pwr&Gas	402	-4.5	60.0	27.5	50.0	17.7

Source: BofA Global Research, QUICK

Note: Universe consists of TOPIX stocks with market cap above 400 bn JPY, screened based on the following conditions: Policy holdings stocks vs. market cap above 5%, the ratio of policy holdings stocks to policy holdings being held by other companies above 1.5 and RP earnings revision ratio above -5%; listed in descending order of market cap. Estimated value is based on QUICK consensus. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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Lastly, we look at stocks with significant real estate portfolios. The land bank portfolios shown in Exhibit 44 list the TOPIX companies with a market cap of at least ¥300bn that own real estate portfolios with a market value minus book value at least 10% of their total market cap (for some stocks, we substituted investment real estate data). Please note, however, that this list, automatically generated from a database, is for reference only and may not be an accurate representation of unrealized gains on real estate.

Inflation can increase the prospects for raising rents and expand business opportunities for companies in the real estate sector and can increase the potential for selling some real estate holdings for companies holding real estate without much synergy with their main business.



Exhibit 44: Land Bank portfolio

Stocks with a market cap of at least ¥400bn and unrealized gains on real estate, including for lease, of at least 3% of market cap

TSE code	Name	Sector	Mkt cap (bn JPY)	P/B (x)	Maket value of real estate holdings (vs. mkt cap. %)	Book value of real estate holdings (vs. mkt cap. %)	Maket value minus book value of real estate holdings (vs. mkt cap. %)
9432	NIPPON TELEGRAPH & TELEPHONE	Inf.&Com.	14,117	1.2	18.6	9.5	9.1
8031	MITSUI	Whsle Trade	8,804	1.1	7.7	2.4	5.3
8750	DAI-ICHI LIFE HD	Insurance	4,113	1.2	31.1	22.5	8.6
6178	JAPAN POST HD	Services	4,106	0.3	35.4	21.4	14.1
8801	MITSUI FUDOSAN	Real Estate	3,835	1.2	181.5	93.7	87.8
8267	AEON	Retail Trade	3,800	1.8	51.7	37.9	13.8
9020	EAST JAPAN RAILWAY	Land Trans.	3,424	1.2	73.0	25.6	47.4
1925	DAIWA HOUSE INDUSTRY	Construction	3,272	1.2	45.0	39.1	5.9
8802	MITSUBISHI ESTATE	Real Estate	3,264	1.2	286.2	137.7	148.6
8830	SUMITOMO REALTY & DEVELOPMENT	Real Estate	2,621	1.2	319.6	167.2	152.4
1928	SEKISUI HOUSE	Construction	2,182	1.1	22.0	18.1	3.9
7013	IHI	Machinery	2,169	4.3	15.8	6.6	9.1
5803	FUJIKURA	Nonfer.Mtls	2,034	4.7	5.7	1.9	3.8
1812	KAJIMA	Construction	1,893	1.5	29.3	16.0	13.3
9104	MITSUI O.S.K. LINES	Marine Trans	1,857	0.7	38.6	24.7	13.9
9503	KANSAI ELECTRIC POWER	Elec.Pwr&Gas	1,810	0.6	33.8	21.3	12.5
8795	T&D HD	Insurance	1,809	1.4	22.0	15.3	6.7
9531	TOKYO GAS	Elec.Pwr&Gas	1,767	1.0	32.9	7.6	25.3
1802	OBAYASHI	Construction	1,580	1.3	47.6	33.0	14.6
8593	MITSUBISHI HC CAPITAL	Oth.Fin.Bus.	1,533	0.8	35.1	30.6	4.5
8601	DAIWA SECURITIES GROUP	Sec.&Com.Fut	1,531	0.8	60.1	50.9	9.3
9021	WEST JAPAN RAILWAY	Land Trans.	1,473	1.2	62.6	30.9	31.6
9532	OSAKA GAS	Elec.Pwr&Gas	1,452	0.8	20.9	15.1	5.8
9602	TOHO	Inf.&Com.	1,349	2.7	42.3	12.3	30.0
8473	SBI HD	Sec.&Com.Fut	1,340	0.8	6.6	2.6	4.0
9024	SEIBU HD	Land Trans.	1,197	2.1	57.4	29.3	28.2
1803	SHIMIZU	Construction	1,147	1.2	46.6	31.8	14.9
1878	DAITO TRUST CONSTRUCTION	Real Estate	1,125	2.4	13.9	6.8	7.1
3003	HULIC	Real Estate	1,112	1.3	182.7	146.4	36.2
5411	JFE HD	Iron & Steel	1,083	0.4	11.9	5.0	6.9
9005	TOKYU	Land Trans.	1,074	1.2	113.2	53.9	59.3
9023	TOKYO METRO	Land Trans.	1,063	1.5	12.7	7.1	5.6
9042	HANKYU HANSHIN HD	Land Trans.	993	0.9	147.3	89.8	57.5
9404	NIPPON TELEVISION HD	Inf.&Com.	871	0.9	15.3	12.1	3.2
3099	ISETAN MITSUKOSHI HD	Retail Trade	845	1.4	23.3	13.7	9.5
9401	TBS HD	Inf.&Com.	778	0.8	40.6	9.2	31.4
3231	NOMURA REAL ESTATE HD	Real Estate	772	1.0	121.3	86.8	34.6
3289	TOKYU FUDOSAN HD	Real Estate	755	0.9	153.3	99.2	54.1
9009	KEISEI ELECTRIC RAILWAY	Land Trans.	714	1.4	32.5	21.9	10.6
4676	FUJI MEDIA HD	Inf.&Com.	703	0.8	57.6	47.8	9.8
9147	NIPPON EXPRESS HD	Land Trans.	699	0.8	40.5	9.6	30.9
8905	AEON MALL	Real Estate	639	1.3	278.7	208.4	70.3
1808	HASEKO	Construction	630	1.2	21.2	17.8	3.3
8252	MARUI GROUP	Retail Trade	616	2.5	46.8	21.2	25.6
9142	KYUSHU RAILWAY	Land Trans.	610	1.3	82.8	57.4	25.4
2501	SAPPORO HD	Foods	587	3.0	68.6	35.6	33.0
9007	ODAKYU ELECTRIC RAILWAY	Land Trans.	584	1.2	62.3	41.6	20.7
3086	J.FRONT RETAILING	Retail Trade	564	1.3	51.3	31.4	19.8
5444	YAMATO KOGYO	Iron & Steel	550	0.9	9.0	1.9	7.0
9041	KINTETSU GROUP HD	Land Trans.	542	0.9	42.8	36.2	6.6
8804	TOKYO TATEMONO	Real Estate	532	1.0	297.7	193.3	104.5
9001	TOBU RAILWAY	Land Trans.	514	0.9	46.1	29.8	16.3
2871	NICHIREI	Foods	472	1.7	10.2	2.0	8.1
5901	TOYO SEIKAN GROUP HD	Metal Prod.	455	0.7	34.2	6.9	27.3
2433	HAKUHODO DY HD	Services	443	1.1	10.5	3.4	7.1
5233	TAIHEIYO CEMENT	Gl.&Cer.Prod	440	0.7	28.3	11.6	16.7
9301	MITSUBISHI LOGISTICS	Whsng&H.Tr.S	438	1.2	94.9	32.7	62.2
9008	KEIO	Land Trans.	417	1.0	70.0	44.3	25.6
9706	JAPAN AIRPORT TERMINAL	Real Estate	416	2.1	124.4	60.8	63.6
9006	KEIKYU	Land Trans.	407	1.1	88.7	28.9	59.8

Source: BofA Global Research, QUICK

Note: We screened for TOPIX stocks that meet the following conditions. Companies (1) with a market cap of at least ¥400bn and (2) unrealized gains on real estate, including for lease, of at least 3% of market cap. For stocks that we could not obtain data on their real estate holdings, we used investment real estate as a proxy. Listed by market cap in descending order. Please note, however, that this list was automatically generated from a Quick Astra Manager database and may not be an accurate representation of unrealized gains. Estimates are QUICK consensus estimates. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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